

National Bank of Ethiopia

VI. FEDERAL GOVERNMENT FINANCE

During the first quarter of the current fiscal year, quarterly Federal Government finance depicts a surge in the overall fiscal deficit (including grants). The overall fiscal deficit reached Birr 1.98 billion, higher by 97 percent and 1.1 percent than that of the same period last year and the preceding quarter. The increase in total expenditure and slow down in revenue have contributed to this rise. Further more, no grants have been registered during the review period. On the other hand, current surplus (which is the difference between total revenue and current expenditure) was higher by 10.6 percent compared to the same period last year due to relative improvement in total revenue. During the review period, about 17.8 percent of the total revenue was mobilized and 22.6 percent of total expenditure effected.

Table VI.1 Summary of Federal Government Finance *

(In million Birr)

No.	Particulars	2003/04		2004/05		Percentage Change		Performance Rate
		QI	QIV	Budget	QI	D/B	D/A	D/C
		A	B	C	D			
1	Revenue and Grants (1.1+1.2)	2422	2856	14284	2544	-10.9	5.1	17.8
1.1	Total Revenue	2319	2500	12773	2544	1.8	9.7	19.9
	Tax Revenue	1830.9	2135	9850	2311	8.2	26.2	23.5
	Non-Tax Revenue	487.7	364	2923	233	-36.1	-52.2	8.0
1.2	Grants	102.9	356	1511	0	-100.0		0.0
2	Current Expenditure	1417	1484	7150	1547	4.2	9.2	21.6
3	Current Surplus/Deficit (1.1-2)	902	1015	5623	997	-1.8	10.6	17.7
4	Capital Expenditure ²	981.5	1732	6523	1555	-10.3	58.4	23.8
5	Regional Transfers	985.8	1549	5556	1372	-11.4	39.1	24.7
6	Special Program	44.2	50	767	51	3.1	16.3	6.7
7	Total Expenditure ¹ (2+4+5+6)	3429	4815	19996	4525	-6.0	32.0	22.6
8	Overall Surplus/Deficit							
	(Including Grants) (1-7)	-1007	-1959	-5712	-1981	1.1	96.7	34.7

	(Excluding Grants) (1.1-7)	-1110	-2316	-7223	-1981	14.5	78.4	27.4
9	Total Financing	1007	1959	5712	1981	1.1	96.7	34.7
9.1	Net External Borrowings	332	687	4204	484	-29.6	45.6	11.5
	External Borrowing	333	659	1778	464	-29.6	39.4	26.1
	Counter Part Fund	0	10	1750	0	-100.0		
	Special Program	78	54	767	81	51.1	4.0	10.6
	HIPC Relief	177	123	713	175	43.0	-1.0	24.6
	Amortization Paid	-256	-158	-804	-237	49.8	-7.3	29.5
9.2	Net Domestic Borrowings	-186	2600	1508	887	-65.9	-577.4	58.8
	Banking System	-216	2996	1508	843	-71.9	-490.6	55.9
	Non-Bank Sources	30	-396	0	44	-111.1	46.7	
9.3	Privatization Receipts	0	11	0	0	-100.0		
9.4	Others and Residuals	861	-1338	0	610	-145.6	-29.1	

Source: Ministry of Finance and Economic Development

1/ All expenditures from domestic sources are authorized payments.

Preliminary Actual

2/ Excludes external technical assistance.

6.1 Revenue and Grants

The total revenue mobilized by the Federal Government during the review quarter was Birr 2.5 billion, out of which about 91 percent was collected from taxes and 9.0 percent from non-tax sources. No grants were registered despite Birr 1.5 billion envisaged for the fiscal year.

Table VI. 2 Summary of Federal Government Revenue by Component

(In Millions Of Birr)

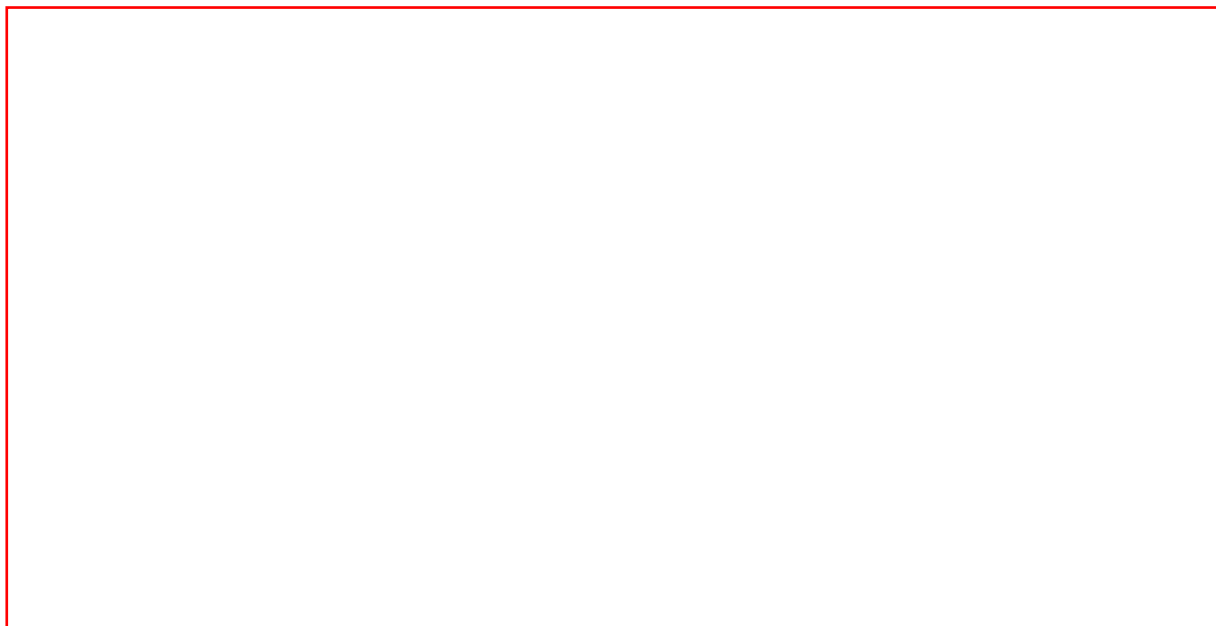
No.	2003/04 (1996)		2004/05 (1997)		Percentage Change		Performance Rate
	QI	QIV	Budget	QI			
	A	B	C	D	D/B	D/A	D/C
Total Revenue and Grants	2421.5	2855.76	14283.9	2544.2	-10.9	5.1	17.8
Total Domestic Revenue	2318.6	2499.3	12772.9	2544.2	1.8	9.7	19.9
1 Tax Revenue	1830.9	2134.57	9850.4	2311.3	8.3	26.2	23.5
1.1 Direct Tax Revenue	486.1	353.02	2627.3	403.3	14.2	-17.0	15.4
1.1.1 Income Taxes	411.6	269.74	2265.4	317.1	17.6	-23.0	14.0
- Personal	68.8	97.75	325.4	80.2	-18.0	16.6	24.6
- Business	342.8	171.99	1940	236.9	37.7	-30.9	12.2
1.1.2 Others ¹	74.5	83.28	361.9	86.2	3.5	15.7	23.8
1.2. Indirect Taxes	1344.8	1781.55	7223.1	1908	7.1	41.9	26.4
2. 2.1 Domestic Taxes	397.3	542.3	2197.5	516.1	-4.8	29.9	23.5
2. 2.2 Foreign Trade Taxes	947.5	1239.25	5025.6	1391.9	12.3	46.9	27.7
- Import	947.5	1239.25	5025.6	1391.9	12.3	46.9	27.7
- Export	0	0	0	0			
2. Non-Tax Revenue	487.7	364.73	2922.5	232.9	-36.1	-52.2	8.0
O/W Dividend	1	33.45	400	27.2	-18.7	2620.0	6.8
3. CPF Grants	102.9	356.46	1511	0	-100.0	-100.0	0.0

Source: Ministry of Finance and Economic Development

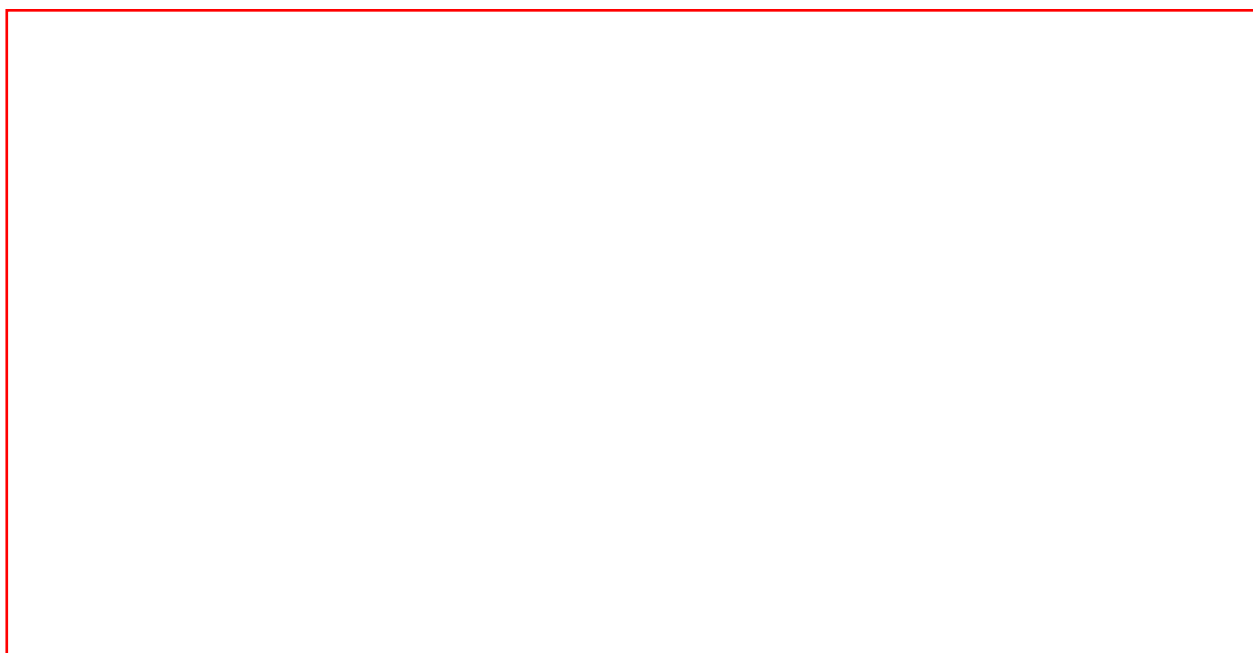
* Preliminary Actual

1/ Others include rental, with holding tax and interest income

Total domestic revenue mobilized during the first quarter of 2004/05 was 9.7 and 1.8 percent higher than that of the same period last year and the preceding quarter, respectively. Had it not been for a slowdown in non-tax revenue, due to a drop in residual surplus and dividends, total revenue would have been higher.



Meanwhile, tax revenue increased by 8 percent over the previous quarter and 26 percent against the revenue collected a year earlier. Of the total tax revenue, direct taxes, which comprise income taxes including personal and business income taxes as well as rental, withholding and interest income, accounted for Birr 403 million (15.8 percent). At the same time indirect taxes, which consist of taxes from domestic and foreign trade reached Birr 1.9 billion (or 75 percent of total income) in contrast with Birr 1.78 billion (or a share of 71.3 percent) in the previous quarter.



6.2 Expenditure

Total Federal Government expenditure during the first quarter amounted to Birr 4.5 billion. Of this sum, current expenditure, which covers outlays for general government services, economic services, social services, debt service and others, reached Birr 1.5 billion accounting for about 34.1 percent of the total Federal Government expenditure during the review quarter. Meanwhile, various development programs took up 34.4 percent of the total expenditure. Regional transfers accounted for 30.3 percent and special programs, such as demobilization and reconstruction projects, about 1.2 percent.

**Table VI. 3 Summary of Federal Government Expenditure by Component
(In Millions Of Birr)**

Particulars	2003/04 (1996)		2004/05 (1997)		Percentage Change		Performance Rate
	QI	QIV	Budget	QI			
	A	B	C	D	D/A	D/B	D/C
Total Expenditure ¹	3428.4	4815.6	19996.0	4524.6	32.0	-6.0	22.6
1. Current Expenditure	1417.0	1484.3	7150.0	1546.9	9.2	4.2	21.6
- General Services	922.5	927.2	3732.9	1136.4	23.2	22.6	30.4
- Economic Services	73.9	77.7	406.4	64.3	-13.0	-17.2	15.8
- Social Services	136.0	202.9	806.5	130.9	-3.8	-35.5	16.2
- Debt Service	242.0	275.5	1567.0	204.7	-15.4	-25.7	13.1
-Contingency and Others	42.6	1.1	637.2	10.6	-75.1	872.5	1.7
2. Capital Expenditure ²	981.4	1732.8	6523.2	1554.8	58.4	-10.3	23.8
- Economic Development	746.5	1091.3	4635.9	1063.1	42.4	-2.6	22.9
- Social Development	154.6	523.9	1670.1	372.3	140.8	-28.9	22.3
- General Development	80.3	117.6	217.2	119.4	48.7	1.5	55.0
3. Regional Transfers	985.8	1548.6	5555.8	1371.5	39.1	-11.4	24.7
4. Special Programs	44.2	49.8	767.0	51.4	16.3	3.1	6.7

Compared to the preceding quarter, total Federal Government expenditure decreased by 6 percent owing to the fall in capital expenditure (10.3 percent), and regional transfers (11.4 percent) outweighing the increase in current expenditure and special programs. On the other hand, total expenditure went up by 32 percent vis-à-vis the same period last year due to increased outlays for all components of total expenditure.

6.3 Deficit Financing

In the review quarter, the Federal Government fiscal operations resulted in a current surplus of over Birr 997 million. The overall deficit (including grants), however widened and reached Birr 1.98 billion compared with Birr 1.0 billion in the first quarter of fiscal year 2003/04.

The deficit was largely financed by net external borrowing and net domestic borrowing from the banking system. Meanwhile, Birr 610 million was registered as residual.